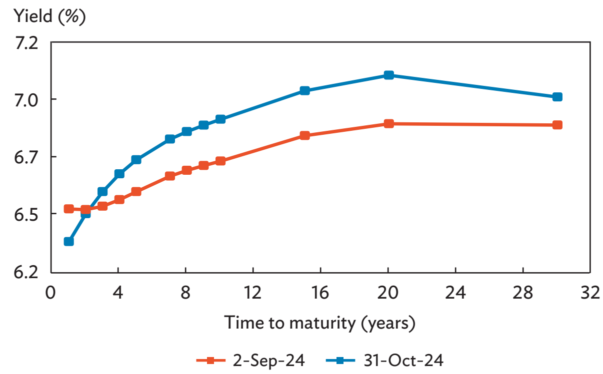
Indonesia

Yield Movements

Local currency (LCY) government bond yields in Indonesia climbed for most maturities from 2 September to 31 October, largely tracking the yield movements of United States Treasuries. Sovereign bond yields rose an average of 15 basis points (bps) for maturities of over 2 years, while yields fell by an average of 8 bps for tenors of 2 years or less (**Figure 1**). The uptick in yields was largely driven by uncertainties over the pace of the United States Federal Reserve's monetary policy easing as well as some domestic concerns over the policy direction of the new government. While Bank Indonesia reduced rates by 25 bps in its meeting in September, volatility in the domestic currency amid ongoing uncertainties led the central bank to hold rates steady at its meeting on 15–16 October. Nonetheless, continued moderation in inflation supported declining yields at the shorter end of the curve. Consumer price inflation eased to 1.8% year-on-year and 1.7% year-on-year in September and October, respectively, and is now approaching the lower end of the central bank's full-year 2024 target range of 1.5%–3.5%.

Figure 1: Indonesia's Benchmark Yield Curve—Local Currency Government Bonds

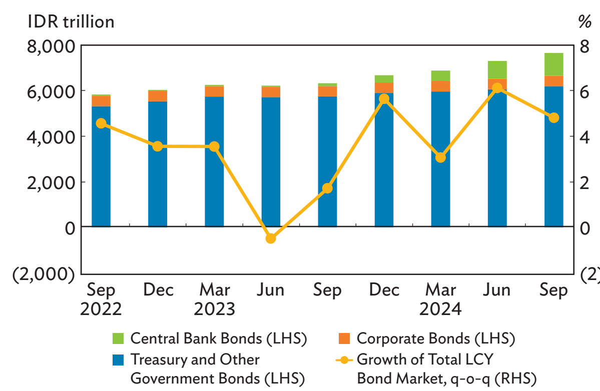


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The LCY bond market in Indonesia reached a size of IDR7,545.6 trillion at the end of September, with growth moderating to 4.8% quarter-on-quarter (q-o-q) in the third quarter (Q3) of 2024 from 6.1% q-o-q in the second quarter (Q2). Much of the growth was contributed by government bonds, which expanded 2.3% q-o-q in Q3 2024, versus 1.6% q-o-q in the prior quarter, as improved domestic financial conditions supported new issuance (**Figure 2**). While central bank bonds posted the fastest rate of expansion among all bond types at 28.3% q-o-q, growth moderated from 69.1% q-o-q in Q2 2024. On the other hand, the corporate bond stock contracted (–1.7% q-o-q) over a high volume of maturities and reduced issuance in Q3 2024.

Figure 2: Composition of Local Currency Bonds Outstanding in Indonesia



( ) = negative, IDR = Indonesian rupiah, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.

Notes: Data include *sukuk* (Islamic bonds). Data for Treasury and other government bonds comprise tradable and nontradable central government bonds.

Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange.

Total LCY bond issuance tallied IDR775.1 trillion in Q3 2024, with growth largely supported by government bonds (Figure 3). Overall issuance growth decelerated to 1.9% q-o-q in Q3 2024 from 12.3% q-o-q in Q2 2024. Growth was largely driven by government bond issuance as improved financial conditions allowed the government to raise more funds and take advantage of declining borrowing costs. Growth in government bond issuance picked up to 26.3% q-o-q in Q3 2024 after contracting 23.4% q-o-q in the prior quarter. Central bank issuance contracted 6.2% q-o-q as financial conditions largely stabilized during Q3 2024, leading the central bank to reduce its issuance. Corporate bond issuance also contracted 9.8% q-o-q in Q3 2024.

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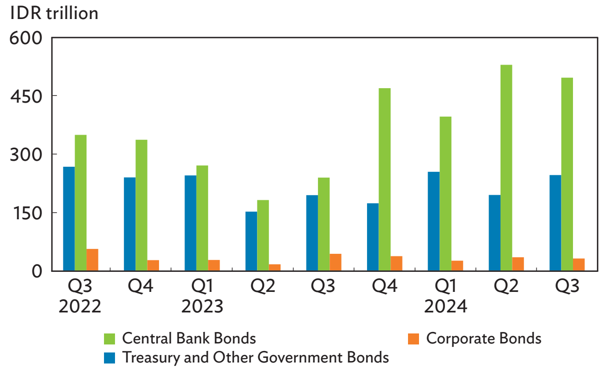
Figure 3: Composition of Local Currency Bond Issuance in Indonesia



IDR = Indonesian rupiah, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Notes: Data include *sukuk* (Islamic bonds). Data for Treasury and other government bonds comprise tradable and nontradable central government bonds.

Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange.

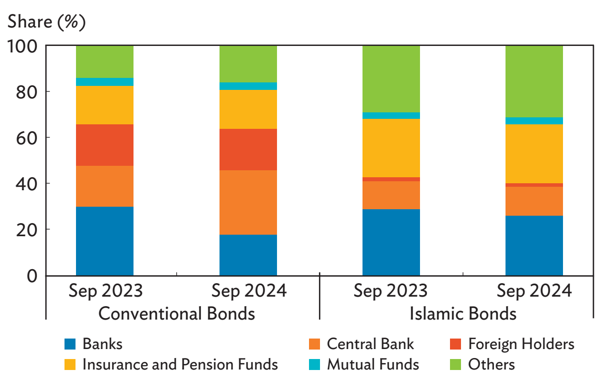
Investor Profile

As with other emerging East Asian peers, LCY tradable sovereign bonds in Indonesia were largely held by domestic investors (85.3%).[14] However, unlike its regional peers, the largest bondholder in Indonesia was the central bank with a holdings share of 25.0% at the end of September. Bank Indonesia has gradually increased its holdings of government bonds to optimize its money market operations, as well as to support bond market stability. The next largest bondholders were banking institutions, which recorded a substantial decline in their holdings share to 19.5% at the end of September from 29.7% a year earlier. Meanwhile, foreign investors' holdings share ticked down to 14.7% at the end of September from 15.0% a year earlier despite a 5.8% increase in foreign holdings in nominal terms during the same period. By type of bond, the share of foreign ownership of conventional bonds at the end of September was much higher at 17.9% compared with 1.4% for *sukuk* (Islamic bonds) (**Figure 4**).

Sustainable Bond Market

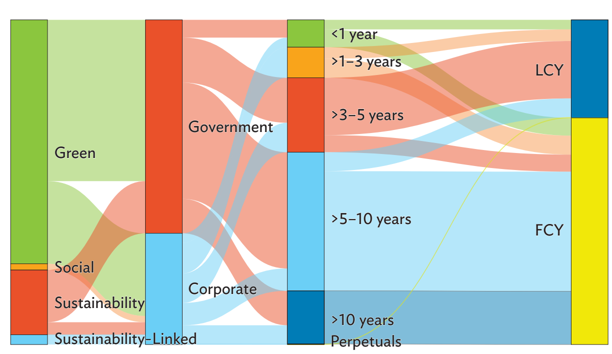
The sustainable bond market in Indonesia largely comprises green bond instruments, public sector financing, and long-term tenors. Sustainable bonds outstanding in Indonesia reached USD13.7 billion at the end of September on accelerated growth of 10.2% q-o-q in Q3 2024, up from 3.5% in Q2 2024, amid robust issuance. Green bonds remained the dominant sustainable bond instrument, representing 75.1% of the sustainable bond total at the end of September (**Figure 5**). Most sustainable bonds outstanding in the Indonesian market at the end of September were from the public sector (65.8%), as the Government of Indonesia remains committed to fulfilling its Sustainable Development Goals. Owing to the public sector's active participation, sustainable bond financing in Indonesia is largely concentrated in longer tenors, with bonds carrying maturities of over 5 years comprising 70.6% of outstanding public sector sustainable bonds at the end of September. In contrast, private sector sustainable bonds largely comprised shorter tenors (62.6%). Overall, the size-weighted average tenor of sustainable bonds in Indonesia stood at 8.4 years at the end of Q3 2024.

Figure 4: Investor Profile of Tradable Central Government Bonds



Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

Figure 5: Market Profile of Outstanding Sustainable Bonds in Indonesia at the End of September 2024



FCY = foreign currency, LCY = local currency.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

[14] Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.